

**Report of the**  
**Department of Human Resource Management's**  
**Workers' Compensation Program**  
**Settlements in Fiscal 2003**  
**and**  
**Experience-based Premium Recommendations**  
**Pursuant to**  
**2003 Reconvened Session**  
**Chapter 1042, Item 84**

**August 29, 2003**

## **Workers' Compensation Settlements in Fiscal 2003**

The Workers' Compensation Program settled five Workers' Compensation claims during Fiscal 2003 saving \$530,350.98 in expected future costs. Exhibit A provides a list of all settlements. Savings are calculated as follows:

Total Case Reserves (Future Exposure)	\$ 599,110.98
Total Settlement Amounts	\$ 68,760.00
Savings due to settlements	\$ 530,350.98

All settlements have been approved by the Workers' Compensation Commission of Virginia as being in the best interest of the claimant or the dependents as required by Rule 1.7 of the Rules of the Commission. Prior to the approval of all settlements, the Workers' Compensation Program staff must:

- obtain the most current medical information
- obtain a current rehabilitation report indicating the employee's inability to return to any type of gainful employment
- determine if the employee has taken disability or service retirement through the Virginia Retirement System
- determine if the employee is receiving social security disability benefits
- conduct an analysis of the benefit to the Commonwealth of Virginia when comparing the amount of settlement to the estimated future exposure that would be created for the Virginia Retirement System
- obtain approval from the Director of Workers' Compensation

After it has been determined that it is in both the claimant's and the Commonwealth of Virginia's best interest to settle the claim, it is submitted to the Office of the Attorney General for approval. If the Office of the Attorney General concurs with the recommendation, the proposed compromise settlement is submitted to the Virginia Workers' Compensation Commission for their approval.

## Experience-based Premium Recommendations

### Objective

The study provides recommendations to the Governor and the General Assembly of the agency-by-agency cost of experience-based premiums for the Department of Human Resource Management's Workers' Compensation Program for FY2005 and FY2006 using the latest actuarial data.

### Recommendation

The recommendation is to have workers' compensation premiums equal to the cash flow needs of the program. Total premiums recommended for each fiscal year are:

<b><u>Recommended FY2005 Premium</u></b>	<b><u>Recommended FY 2006 Premium</u></b>
<b>\$47,292,440</b>	<b>\$48,625,597</b>

### Background

Experience-based premiums are based on the marketplace premise that the higher the cost of claims, the higher the premiums. The policyholder's claim history, the number and dollar amount of previous claims, projected payroll, as well as other risk factors determine premiums. With experience-based premiums, the policyholder absorbs any increase in premium costs, and retains savings if premiums decrease. This gives the policyholder a monetary incentive to prevent accidents and control costs.

The Department of Planning and Budget conducted an evaluation study of the Workers' Compensation Program and in December of 1998 issued a report *Experience-Based Premiums for the Commonwealth's Self-Insurance Programs*. They recommended that the Workers' Compensation Program should adopt experience-based premiums. Because of the increased cost of premiums and the cost shifting between agencies, experience-based premiums were phased in over a two-year period. FY2000 premiums were capped at no more than a 50 percent increase or decrease, compared to FY1998 premiums. FY2001 premiums were experience-based with no cap. FY2002 premiums were identical to FY2001 and did not reflect loss or payroll trends or exposure (payroll) growth between 2000 and 2002. FY2003 and FY2004 premiums were experience based with a cap of no more than a 25 percent increase or decrease. In addition, each agency could be charged an additional amount equal to the overall increase required by the program.

Since FY1998 total premiums collected equaled the actuarial projection of the expected cash flow needs of the program. There is no requirement that the workers' compensation program be actuarially sound. The workers' compensation program has consistently been in a deficit fund position since 1987.

## **Benefits of Experience-based Premiums**

With so many competing goals existing in the work environment today, claims and loss control receive little attention by agency management when there are no consequences. Experience-based premiums have created agency management awareness of the cost of their claims. It has also provided a financial incentive for agencies to control costs. When an agency has an effective loss control program, premiums typically will be reduced due to improved experience (unless the agency has a significant increase in projected payroll).

Since implementing experience-based premiums, agencies have begun to charge management with the job of controlling workplace injuries. Creating experience-based premiums has definitely increased agency attention to their safety and loss control needs. In addition, agencies are required under Executive Order 52(99) *Workplace Safety and Health* to implement initiatives to analyze and control workplace accidents.

For those agencies that have put limited resources to the management of risk in the past, the Workers' Compensation Program has created extensive training and inspection programs that are assisting agencies develop programs to:

- eliminate or reduce premises hazards
- reduce or control exposures
- create training programs to increase control of risk
- improve workplace safety
- reduce program costs
- reduce the frequency and severity of claims
- return employees to work in a modified duty capacity
- provide a vocational specialist to assist with telecommuting initiatives

## **Methodology**

Mercer Risk, Finance & Insurance Consulting (Mercer) was asked to provide an allocation of the projected FY2005 and FY2006 costs of the workers' compensation self-insurance program to the Commonwealth's agencies. The allocation was to reflect the historical experience of the individual agencies as of February 28, 2003. It was also requested that they rely on their annual analysis of the overall reserve requirements of the self-insurance program.

The Department of Planning and Budget provided payroll information by agency from FY2000 through FY2002. In addition, they provided projected payroll for FY2003 through FY2006. Actual premiums charged by agency for FY2000 through FY2004 and actual loss information for accidents occurring in FY1998 through FY2002 was provided by the Office of Workers' Compensation.

The actuary provides three premium options based upon their reserve analysis. The figures represent the total of the projected program and administrative expenses and projected losses for FY2005 and FY2006 under three scenarios defined below:

1. Indicated Undiscounted Actuarial Premium – the premium required to pay the ultimate cost of claims anticipated to occur during FY2005 plus the FY2005 program and administrative expenses.
2. Pay As You Go – projection of loss and expense payments (net of investment income) to be made during FY2005 on all accident years.
3. Pay As You Go Plus One Year's Cashflow – projection of loss and expense payments (net of investment income) to be made during FY2005 plus the amount required so that the FY2005 ending fund balance is equal to the FY2006 cash flow.

Agencies' premium changes generally fall into one or both of two categories—namely, their loss experience has been considerably worse than the overall loss ratio of 102.7%, or current premiums are substantially below what would be expected based upon their payroll and insurance industry loss information.

It is the recommendation of the Department of Human Resource Management that the program continue to allocate premiums on the Pay As You Go basis. This scenario represents a 5.8% increase in overall premiums for FY2005.

Total premiums recommended are \$47,292,440 for FY2005 and \$48,625,597 for FY2006. Exhibit B provides recommended workers' compensation premiums by agency on a Pay as You Go (cash flow) basis for FY2005 and FY2006. The complete actuarial study is attached (Exhibit C) which provides details of the individual calculations that were performed to arrive at the final premium recommendations.

**EXHIBIT A****Fiscal 2003 Workers' Compensation Settlements**

<b>Claimant Name</b>	<b>Date of Injury</b>	<b>Settlement Amount</b>	<b>Future Exposure</b>	<b>Savings due to Settlement</b>
Mariama Mansaray	5/26/2001	\$ 15,760	\$ 160,165	\$ 144,405
Esther Marshall	10/23/2001	\$ 10,000	\$ 20,000	\$ 10,000
David Mitchell	10/3/1997	\$ 19,500	\$ 82,157	\$ 62,657
Terry Rosen	5/3/1999	\$ 5,000	\$ 154,073	\$ 149,073
William Young	7/3/1999	\$ 18,500	\$ 182,716	\$ 164,216
<b>TOTALS</b>		<b>\$ 68,760.00</b>	<b>\$ 599,110.98</b>	<b>\$ 530,350.98</b>

**EXHIBIT B**

**COMMONWEALTH OF VIRGINIA  
SELF INSURANCE FUND  
WORKERS COMPENSATION PREMIUM FOR FISCAL YEARS 2005 & 2006**

Agency Code	Agency Name	FY 2004 Actual Premium	Recommended Premium	
			Pay As You Go FY 2005	Pay As You Go FY 2006
100	Senate of Virginia	10,440	8,440	6,568
101	House of Delegates	12,896	10,426	9,882
103	Magistrate System	21,971	28,747	29,605
107	Division of Legislative Services	4,407	4,679	4,463
108	VA Code Commission	0	55	59
109	Division of Legislative Automated Systems	1,972	1,882	1,795
110	Joint Legislative Audit Review Commission	2,921	2,967	2,830
111	Supreme Court of Virginia	152,561	188,539	179,836
112	Judicial Inquiry and Review Commission	438	425	406
117	Virginia State Bar	6,149	8,046	9,272
119	Office of Lieutenant Governor	451	365	286
121	Office of the Governor	2,832	2,290	1,782
122	Department of Planning & Budget	5,886	4,976	4,746
123	Department of Military Affairs	124,742	163,216	208,621
127	Department of Emergency Management	15,891	12,846	11,630
129	Department of Human Resource Management	8,499	11,120	12,708
132	State Board of Elections	1,584	1,770	1,688
133	Auditor of Public Accounts	7,160	5,788	4,876
136	Virginia Information Technologies	38,773	31,345	29,051
140	Department of Criminal Justice Services	73,090	95,633	99,808
141	Office of the Attorney General	19,303	16,778	16,004
146	Science Museum of Virginia	28,575	26,001	24,801
148	Virginia Commission for the Arts	384	336	320
151	Department of Accounts	9,680	9,282	8,854
152	Department of the Treasury	9,007	10,133	9,665
154	Department of Motor Vehicles	1,245,543	1,006,928	783,581
156	Department of State Police	2,795,124	3,657,210	4,345,957
157	Compensation Board	1,587	1,876	1,789
158	Virginia Retirement System	14,207	18,588	19,028
160	Virginia Criminal Sentencing Commission	853	849	810
161	Virginia Department of Taxation	45,475	59,501	72,446
163	Department for the Aging	1,848	1,880	1,793
165	Dept of Housing & Community Development	24,398	21,045	20,074
166	Secretary of the Commonwealth	886	1,159	1,212
169	Commonwealth Competition Council	275	349	332
170	Council on Human Rights	364	353	337
171	State Corporation Commission	35,128	45,962	49,242
172	Virginia State Lottery Department	32,828	30,138	28,747

Agency Code	Agency Name	FY 2004 Actual Premium	Recommended Premium	
			Pay As You Go FY 2005	Pay As You Go FY 2006
173	Charitable Gaming Commission	1,886	2,313	2,206
174	Virginia College Savings Plan	1,337	1,750	2,236
175	Virginia Office for Protection and Advocacy	2,010	1,625	1,265
180	Secretary of Administration	1,193	964	918
181	Virginia Department of Labor and Industry	54,550	64,790	61,799
182	Virginia Employment Commission	77,615	101,553	111,655
183	Secretary of Natural Resources	678	578	551
184	Secretary of Technology	29	38	49
185	Secretary of Education	785	655	624
186	Secretary of Transportation	576	531	507
187	Secretary of Public Safety	878	766	731
188	Secretary of Health and Human Resources	1,141	922	865
190	Secretary of Finance	606	560	534
191	Virginia Workers' Compensation Commission	40,526	42,733	40,761
192	Secretary of Economic Development	798	645	521
194	Department of General Services	186,525	228,762	218,203
199	Department of Conservation and Recreation	261,303	287,735	274,453
201	Department of Education	28,524	33,135	31,605
202	The Library of Virginia	17,557	14,193	13,182
204	The College of William & Mary	439,452	492,053	469,341
207	University of Virginia	1,597,050	1,486,942	1,418,306
208	Virginia Polytechnic Institute & State University	2,713,954	3,168,787	3,022,520
209	University of Virginia Medical Center	1,579,449	2,066,591	2,132,851
211	Virginia Military Institute	200,245	262,005	254,124
212	Virginia State University	175,551	151,129	144,153
213	Norfolk State University	251,888	214,353	204,459
214	Longwood University	193,729	156,615	123,814
215	Mary Washington College	237,091	191,670	165,621
216	James Madison University	1,012,736	818,721	754,709
217	Radford University	581,702	470,262	415,063
218	Virginia School for the Deaf & Blind Staunton	69,650	56,307	50,388
219	Virginia School for the Deaf & Blind Hampton	97,568	91,497	87,274
220	Melchers-Monroe Memorials	2,160	2,411	2,299
221	Old Dominion University	518,073	492,964	470,209
222	Dept of Professional & Occupational Reg	14,441	11,675	9,157
223	Department of Health Professions	35,057	32,358	30,865
226	Board of Accountancy	0	335	361
232	Dept of Minority Business Enterprise	3,662	2,961	2,304
233	Virginia Board of Bar Examiners	522	567	541
236	Virginia Commonwealth University	807,881	957,198	913,015
238	Virginia Museum of Fine Arts	58,335	52,564	50,138
239	Virginia Frontier Culture Museum	7,753	6,268	5,850
242	Christopher Newport College	160,504	204,053	194,634
245	State Council for Higher Education	3,946	3,190	2,645



Agency Code	Agency Name	FY 2004 Actual Premium	Recommended Premium	
			Pay As You Go FY 2005	Pay As You Go FY 2006
246	University of Virginia at Wise	83,740	67,697	54,412
247	George Mason University	391,836	512,688	655,313
260	Virginia Community College System	1,171,596	1,004,844	958,461
262	Department of Rehabilitative Services	276,520	223,545	201,952
268	Virginia Institute of Marine Science	179,537	173,893	165,866
301	Dept. of Agriculture & Consumer Services	138,882	157,402	150,137
307	Virginia Agricultural Council	0	17	18
319	Chippokes Plantation Farm Foundation	0	868	935
325	Department of Business Assistance	4,886	4,508	4,300
402	Marine Resources Commission	112,315	133,811	127,634
403	Department of Game and Inland Fisheries	390,558	400,918	382,412
405	Virginia Racing Commission	1,269	1,242	1,184
408	Chesapeake Bay Local Assistance Dept	2,658	2,217	2,114
409	Department of Mines, Minerals and Energy	49,989	61,209	58,383
411	Department of Forestry	233,334	256,056	244,237
413	Virginia Alcohol Safety Action Program	942	910	868
417	Gunston Hall	4,239	3,464	3,304
423	Department of Historic Resources	16,603	13,422	10,445
425	Jamestown-Yorktown Foundation	57,630	64,665	61,680
440	Department of Environmental Quality	174,536	189,863	181,099
454	Office of Commonwealth Preparedness	0	393	423
501	Department of Transportation	5,361,447	7,015,051	8,966,566
601	Virginia Department of Health	929,894	881,567	840,874
602	Department of Medical Assistance Services	21,973	20,397	19,456
606	Virginia Board for People w/Disabilities	448	569	543
702	Department for the Blind and Vision Impaired	54,417	52,732	50,298
720	Dept. of MHMRSAS	7,889,690	8,242,064	7,861,619
750	Department of Correctional Education	201,026	245,762	234,418
751	Virginia Dept for Deaf & Hard of Hearing	1,425	1,152	1,046
765	Department of Social Services	90,219	118,045	146,335
766	Virginia Parole Board	1,543	1,247	970
777	Department of Juvenile Justice	1,694,485	2,217,107	2,699,401
799	Department of Corrections	8,203,006	6,631,515	5,780,276
820	Capitol Square Preservation Council	0	74	79
834	Virginia Freedom of Information Advisory Council	0	144	156
839	Virginia Commission of Youth	0	297	319
840	Virginia Housing Study Commission	0	109	118
841	Department of Aviation	10,877	14,232	15,090
842	Chesapeake Bay Commission	0	67	72
844	Joint Commission on Health	0	377	406
847	Comm. on Tech. & Sciences	0	158	170
848	Public Defender Commission	31,586	25,535	21,194
912	Department of Veterans' Services	83,643	109,441	139,887

Agency Code	Agency Name	FY 2004 Actual Premium	Recommended Premium	
			Pay As You Go FY 2005	Pay As You Go FY 2006
942	Virginia Museum of Natural History	3,481	2,814	2,306
948	Southwest VA High Ed Center	0	2,621	2,823
957	Commonwealth's Attorney's Service Council	582	470	439
960	Department of Fire Programs	13,133	17,184	19,121
961	Division of Capitol Police	82,034	72,965	69,597
962	Dept of Employment Dispute Resolution	1,659	1,341	1,133
963	Virginia Liaison Office	187	245	312
999	Department of Alcoholic Beverage Control	515,033	673,882	793,190
	Statewide Total	44,681,900	47,292,440	48,625,597